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DESIGN PROPOSAL FOR THE PALESTINIAN INDUSTRIAL ZONE AGENCY - PIZA

Final Report

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Chapter 1: Introduction

This report has been prepared for USAID West Bank and Gaza as part of USAID's activities to assist the Palestinian Authority (PA) in its efforts to establish an industrial estate program in the West Bank and Gaza (WBG). The report has been prepared by Jean-Marie Burgaud, consultant for The Services Group, under contract to Coopers & Lybrand and funded under the Private Enterprise Development Support Project (PEDS). The purpose of this report is to help the PA to identify and define the institutional nature and organizational structure of an Industrial Zone Authority that would oversee industrial estates development in the WBG.

The remainder of this report is structured as follows:

- Chapter 2 presents the objectives and proposed structure of the zone authority. The different types of institutional models used worldwide for such agencies are discussed, and an appropriate institutional form is recommended for the WBG context. The recommended structure and composition of this institution is then presented, including an organizational chart delineating the agency's functions.
- In Chapter 3, the concept of a "one-stop shop," is explored, and the administrative, legal, and institutional measures that will be needed to create such an institution in WBG are presented.
- Investment promotion is an important function of a free zone authority, and Chapter 4 discusses the current institutional framework for investment promotion in WBG. Recommendations are then presented for the cost-effective coordination of Palestinian investment promotion efforts.
- In Chapter 5, a staffing plan for the free zone agency is set forth, including job descriptions and salary requirements for the recommended staff positions. In addition, a staff performance evaluation system is outlined.
- A draft budget is presented in Chapter 6. The Agency's expenses and income are estimated over a five-year period, and recommendations are provided for addressing the shortfall in revenues.
- Chapter 7 discusses administrative procedures which need to be included in the Free Zone Law in order to ensure that the free zone agency will rapidly process developer and user applications. Procedures are outlined for the activities of Board of Directors, the issuance of developer and user permits, and the monitoring of zone activities.
- Finally, in Chapter 8, an Action Plan is presented delineating the measures needed, and the actors responsible for each measure, to make the agency a viable entity.

Chapter 2: Objectives and Structure of the Free Zone Agency

A. The Current Context

The use of free zones or industrial estates to generate economic growth is a long-standing practice worldwide (see Box 2.1). In order to respond to high unemployment levels in the Palestinian territories, the Palestinian Authority (PA) plans to promote the development of Industrial Estates/Free Zones through the provision of both on-site and off-site production infrastructure of international standards, associated tax and administrative incentives, and -- particularly important in the Palestinian context -- a special access and security bi-lateral agreement. The objective of this program is to promote both local and foreign investment to bring both capital and the technical, managerial, and marketing expertise necessary to create new jobs. Under this program, export-oriented companies will benefit from free zone incentives, whether they are operating within a zone, or as a "single factory free zone" (also called "tax free export factories").

Box 2.1 Evolution of the Free Zone Concept

Free Zones can be traced as far back as ancient China, Greece, and the Roman Empire. They are delimited areas (historically, usually ports or cities) with a tax free trade regime. The International Convention on the Simplification and Harmonization of Customs Procedures of 1979 (Kyoto Convention) defines free zones as being "part of the territory of a State where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside of the Customs territory and are not subject to the usual Customs control." Classic free zones of this type include Hong Kong.

The first Industrial Estate (IE) was created in Manchester (UK) in 1896. Following WWII, the use of industrial estates to foster the growth of manufacturing spread throughout the developed and developing world. IEs are universally recognized tools of regional and urban development planning. Most of all, however, they are cost-effective investment promotion tools due to their economies of scale associated with their construction and the provision of on-site and off-site infrastructure.

Industrial Free Zones (IFZs) combine the "hardware" advantages of an IE (i.e., the concentration of infrastructure) and the "software" advantages of a free zone (i.e., a tax free regime and simplified regulatory environment). The first IFZ was created in Shannon (Ireland) in 1959.

With the growing importance of services in modern economies, however, recent free zone regimes increasingly promote the development of all types of economic activities, whether they are industrial- or service-oriented. Increasingly, therefore, modern zones resemble enterprise zones in concept, where all types of modern day economic activities (industry, trade, and services) are permitted, rather than simply industrial free zones.

Many factors influence the success of Industrial Estate (IE) and Free Zone (FZ) programs. These include: the political, legal, and administrative context for the program; the economic environment; the quality of the local work force; the availability and quality of business infrastructure and support services; and physical and operational quality of the zones themselves. The institution in charge of the zone program can have a significant influence on the improvement of these factors, provided its objectives, functions and staffing are properly defined. The purpose of this report is to identify and recommend an appropriate and effective institutional and organizational structure for this institution.

In order to reflect the program's focus on the promotion of both export and non-export production, including industrial and service activities, it is suggested that the institution in charge of the zone program be called the Palestinian Industrial Zone Agency (PIZA). Although the program encompasses service activities, this title is not only more appropriate, but is also shorter and simpler than the Palestinian Industrial Estate and Industrial Service Zone Authority (PIESZA). In keeping with this recommendation, the terms "PIZA" or the "Agency" will be used interchangeably throughout this report.

B. Core Objectives of a FZ Agency

International experience shows that the successful management of a zone program results from three key factors: a program focus on facilitation rather than regulation; the use of appropriate and effective investment promotion techniques; and the provision of targeted policy advice to correct shortcomings in the program design. Each of these is discussed in turn below.

1. From Regulation to Facilitation

While most of the first FZs were publicly owned and/or managed, the poor performance of these zones increasingly led to their privatization and/or the creation of new, privately owned and operated FZs (see Box 2.2). Although private in management and operation, such free zones are still subject to the legal and regulatory requirements of the zone program, and their regulation is typically carried out by a public authority.

Depending on administrative structure and traditions of the country, this regulatory authority can be exercised in a variety of ways. Free zones worldwide are administered and regulated on a ministerial level, typically by the Ministry of Industry or the Ministry of Trade. Oversight and direction may occur directly through a specialized department, through an inter-ministerial committee, or via an ad hoc authority.

The precise administrative and institutional structure of the free zone regulatory authority, however, is less important than the types of activities conducted by the authority. The "lessons learned" from free zone success and failure worldwide demonstrate that governmental oversight agencies will be more successful in encouraging investment if they facilitate, rather than simply regulate, zone activities. A free zone business facilitating environment is achieved through (1) deregulation of the business environment to the greatest extent possible; (2) establishment of simplified and accelerated investment approval and other administrative procedures; and last, but not least, (3) provision of a variety of assistance to free zone tenants.

Although international experience demonstrates that free zones cannot compensate for all the shortcomings of the local business environment (see Box 2.3), many obstacles, particularly at the administrative level, can be corrected by an effective oversight body. This facilitating and responsive function can best be carried out by a "one-stop shop" type of institution. A one-stop shop is typically responsible for handling all the administrative procedures necessary to establish a free zone enterprise.

Box 2.2 Public vs. Private Zones

The Shannon Free Zone in Ireland was the first modern free zone. Created in 1959, it was a government-owned and operated venture. Most of the zones that were subsequently established in developing countries worldwide adopted this government-owned model (although there were a few exceptions; for example, in the 1970s Mexico developed private industrial estates for export-manufacturing industries, known as the *maquiladoras*). Increasingly in the early 1980s, however, the poor record of most public free zones in creating jobs and exports led many countries to privatize their publicly owned or managed FZs and to encourage the creation of private sector free zones.

By the early 1990s, most developing countries had either privatized their free zones or launched new private zones (as happened in Honduras, Guatemala, Chile, and Jamaica, among others), or were looking for ways to privatize their zones (for example, in Egypt, Jordan, Haiti, and Peru). More than half of the 33 zones in the Dominican Republic are now private. Most countries which launched new FZ programs in the 1990s chose private FZ ownership or management (for example, Togo, Kenya, Mozambique, Yemen, Russia, Poland, Chequia, Slovaquia, Rumania, Hungary, and Albania). Two exceptions to private ownership trend are the Saigon export processing zone in Vietnam, which has not yet demonstrated its efficiency, and Cuba's FZ program, which will not be operational until 1997.

The only region which still contains a significant number of public FZs which have been successful is East Asia (e.g., Taiwan and Korea). These FZs were typically established in the 1970s and benefitted from many favorable circumstances, *inter alia* the quality of national macro-economic policies and exceptional public sector management. These factors -- particularly the quality of public sector management -- have typically been lacking in free zone programs elsewhere in the world, and have accounted for the poor performance of nearly all public free zones outside of East Asia. The unique nature and success of public free zones in East Asia appears largely due to factors unique to the region which cannot be duplicated elsewhere. As a result, the East Asian experience does not support the establishment of publicly owned or managed FZs in the rest of the developing world.

The advantage of such an arrangement is that it enables the entrepreneur to obtain all necessary permits and authorizations in a single "stop" at one, rather than many, institutions (see Box 2.4). This institution ideally has the power to act in the name of the various ministries and departments in the issuance of permits and other authorizations, and can quickly process and clear all necessary administrative requirements. While such an Agency has a regulatory or enforcement function in order to ensure that free zone laws and regulations are not violated, the greater focus of its efforts are ideally aimed at facilitating the operations of the developers and users of the zone (see Chapter 3 for a discussion of the functions of a one-stop shop).

Box 2.3 Free Zones are not Panaceas

A free zone cannot remedy all existing factors inhibiting economic growth. Although free zones typically operate as enclaves separate from the local economy, they cannot compensate for all the deficiencies of the local business environment (such political risk, administrative corruption, inadequate enforcement of the law, inadequate transport and other infrastructure, or the absence of a developed industrial and service environment). More than half of the FZs launched in the last 25 years have been costly failures due mainly to the impossibility of creating an enclave "paradise" in such a business-unfriendly environment.

Examples include:

Senegal: The Dakar Free Zone has been hampered by, in addition to other factors, the free zone program's failure to provide a truly unrestricted business environment for zone firms. The zone was harmed by provisions requiring a minimum number of workers and investment. The government also sought to set export prices for free zone firms, rather than allowing prices to be set by market forces. Labor code provisions were also highly restrictive regarding the hiring and firing of workers. Fifteen years after opening, the Dakar Zone employed only 600 persons.

Mauritius: Mauritius provides a key example of how even well-designed free zone programs cannot overcome the limitations of the external economic environment. Much of the explosive growth characterizing the Mauritian export processing zone program in the 1980s was due to the introduction of structural adjustment measures -- including the 50 percent devaluation of the Mauritian rupee -- between 1979 and 1981.

Brazil: The Manaus FZ in Brazil, due mainly to its unfavorable location in the middle of the Amazon, has turned also into an import processing zone.

Bangladesh: Bangladesh's EPZ program is weakened in the eyes of foreign investors by what are perceived to be sorely inadequate living conditions. While the program suffers from a number of other weaknesses, it is also difficult to attract foreign investors due to the poor living conditions for expatriates relative to those found in competing locations such as Thailand and Malaysia.

Since the first free zone to open will be situated in Gaza, the Agency should be located in Gaza. This will enable the office to fulfill its facilitation and promotion functions in the most effective manner. When a zone is opened on the West Bank, then a possible extension of the office should be considered there.

Box 2.4 One-Stop Shop Agencies

Some of the finest one-stop shops in the world include the following:

- The Board of Investment (BOI) of Sri Lanka is a good example of a one-stop shop. The BOI typically delivers FZ permits in two to six weeks
- In the Republic of Korea, each FZ is supported by an Administrative Office, staffed by public servants with the power to act in the name of their respective public administrations.
- The Singapore Economic Development Board (EDB) is a very efficient business supporting one-stop shop. The efficiency of the EDB has contributed considerably to Singapore's image as a country with one of the best investment climates in the world.
- Hong Kong's one-stop shop, thanks to its direct lines with more than 20 administrative offices, is the one-stop shop agency with the highest rating by international investors.

2. Investment Promotion

Effective investment promotion efforts should rest on the communication of good news. Accordingly, investment promotion should not begin before there is positive and concrete information to communicate to potential investors and tenants. Successful business people are overwhelmed by promotional messages (received through the mail, via faxes, personal contacts, conferences, seminars, and now the Internet). As a result, they are instinctively skeptical regarding the veracity of the promotional messages, and will pay little attention to promotional materials which are not concrete and focused in their content and delivery.

Free zone promotional efforts, therefore, should not begin until the zone regime is in place and there is sufficient information on the cost and availability of zone under-roof space; the cost of zone infrastructure such as water and electricity; the cost and availability of specialized amenities offered to zone tenants, etc. One of the most effective forms of investment promotion is the successful establishment and operation of companies within the zone. This "demonstration effect" is extremely important because the most effective way to attract foreign investors to a FZ is to demonstrate to them that other foreign companies are operating profitably there.

Accordingly, the use of on-site visits by prospective tenants and "testimonials" from existing zone firms regarding their satisfaction with the zone program is a highly effective promotional technique. Clearly then, the effectiveness with which the zone oversight body facilitates, rather than simply regulates, the approval of zone investments and the establishment and operation of zone businesses, the stronger the "testimonials" by zone tenants are likely to be, and the more effective a promotional campaign can be built.

Once the zone has been established sufficiently to attract such tenants, therefore, then a promotional campaign should be fully implemented, supported by the appropriate staff,

materials, and budget. Managing the promotional campaign, designing promotional materials, and handling the promotional budget are tasks best handled by the Agency that deals daily with the free zone regime and investors.

3. Policy Advice

Clearly, such an Agency -- when given responsibility for facilitating investment rather than simply regulating the free zone program -- can accumulate a substantial understanding of the shortcomings of the free zone regime. As a result, the Agency can play an important role in assisting public authorities in addressing the shortcomings of the policy and regulatory environment. The Agency can also provide valuable information to public authorities on broader economic issues, as well as on trends and developments in specific industries, provided its responsibilities include regular data collection efforts on trade and investment developments in the region and in the world.

4. Integration of These Key Objectives

Although the facilitative, promotional, and policy objectives described above are clearly distinct, international experience shows that they can best be carried out when integrated in one institution. The regulatory objective, if carried out independently from the promotion objective, tends to be exercised in a restrictive manner, instead of in a facilitating manner. Likewise, the promotion objective, if carried out independently, can lead to "overselling" through the use of deceptive messages that overlook the actual constraints characterizing the existing legal or regulatory regime. The use of two separate institutions to achieve these objectives also runs the risk that contradictory messages will be delivered, or that the two institutions will engage in bureaucratic turf battles, thereby undermining efforts to successfully promote and manage the regime.

The regulatory objective can best be carried out with a facilitating approach when the institution has also a promotion objective. Simply put, if the oversight agency is responsible for both promoting the regime and attracting investors, the agency has a self-interest in facilitating investment and business establishment in order to engender positive testimonials from zone tenants, thereby attracting further investment. Similarly, the promotion objective can deliver a long term effective and trustworthy message when the institution is constrained by a regulatory objective. In sum, these objectives are self-supporting. Finally, the capacity to assume the third function -- that is to deliver sound policy advice -- rests in part upon the experience gained from daily management of the two first objectives.

C. Tasks

Following these objectives, the free zone authority should be responsible for carrying out the following tasks:

Regulation

- receive, evaluate, and approve or reject applications to the Zone regime from users and developers;
- monitor the activities of developers and users;
- impose sanctions or rescind permits in cases where zone laws or regulations are violated; and,
- issue or channel permits and licenses from government ministries and agencies.

Investment Promotion

- assist developers with zone promotional efforts;
- prepare and execute an internal and external promotional plan to attract new investment;
- participate in investment promotion activities;
- prepare all pertinent promotional materials (brochures, videos, home-page, etc.); and,
- develop and update a data base of information regarding prospective investors or sources of production.

Policy Advice

- propose sites for the establishment of new zones;
- co-ordinate off-site infrastructure development and maintenance of zones with respective PA authorities;
- provide continuous support, information and guidance to all existing or prospective users and developers;
- report bi-monthly on activities in the zones to the Ministries of Industry, Planning, and Economy, and maintain a data bank and provide analysis that will allow for competitive information about similar programs in the region and in the world;
- maintain a detailed record of all multilateral and bilateral agreements in the region and in the world, specifying their significance for the zone program and as necessary recommending a course of action to the Palestinian Authority regarding each case; and,
- participate pro-actively in reviewing and recommending economic policies.

D. Structure

1. An Autonomous Institution

Free zone agencies worldwide have evolved from centralized, highly regulatory and heavily bureaucratic organizations into streamlined, efficient, customer service-oriented and promotionally aggressive entities. The key to their successful institutional structure is a Board of Directors with a mixed (private/public) representation, which is autonomous by nature, and supported by public and private funding. Within this context, a transparent and constituency-g geared procedure for choosing private sector representation is essential so that these representatives represent the genuine interests of the private sector, and so that the Board functions most effectively.

In order to be autonomous, the Agency should be headed by a General Manager elected by its public-private Board and reporting exclusively to this Board. If the General Manager is nominated by the government, the Agency will not be free of political interference and would be unable to operate as a truly autonomous institution. Moreover, this would hamper considerably the synergy that can be gained from having both private and public sector representatives on the Board.

The General Manager should have the following capabilities:

- unquestionable independence;
- preferably possesses previous experience in the general management of a similar Agency or Free Zone; and,
- has a demonstrated capacity to oversee the technical assistance that will support the creation of the Agency.

The General Manager should be assisted by an Adviser. This Adviser will also serve as the Team Leader of a Support Project providing financial and technical assistance to the Agency. This technical assistance would provide funding for the Adviser's position for one year, as well as fund the provision of short-term technical experts.

Although its operational structure will address from the start the main objectives discussed above, the Agency should be free to adapt its structure to a changing economic and technical environment. Within the limits of its budget and within the legal framework that defines the zone regime and its role, the Agency should have a flexible structure that allows for adjustment to changing market forces, new sources of competition, etc. The Agency should benefit from full government support, but at the same time -- since it will be an autonomous institution -- operate in accordance with commercial principles. In other words, it should freely manage its hiring/firing, contracting, spending, and funding operations, while it responds to its mandate.

2. Genuine Private Sector Representation

The difference between the an autonomous free zone authority and a mere administrative authority is its Board of Directors which combines (1) public sector administrative responsibilities and capacities, with (2) private sector experience in running a business. This combination of business competence and representation of the public interest is best achieved in a mixed public/private Board (see Box 2.5).

In order to be most effective, the private sector should be represented by genuine constituents, that is, by members which are clearly independent and competent businessmen or members of business association(s). As demonstrated in the case of Cameroon, the failure to choose truly independent private sector representatives can damage private sector support for the FZ program. Under the Cameroonian free zone law, the private sector holds a majority on the Board of the National Office of Free Industrial Zones, through representatives elected by FZ users and the Chamber of Commerce.

This practice was subsequently challenged by FZ users, however, who charged -- with much justification -- that the Chamber of Commerce was not a truly independent institution. As a result, the FZ users believed that the private sector was in fact actually denied a majority on the Board. This dispute led to a damaging conflict between the FZ users and the government. As a result, the free zone companies -- rather than being foremost promoters of the FZ regime - were turned into the program's main detractors.

3. Public Sector Majority

Public sector representatives should have a majority on the Board. This will prevent the immediate beneficiaries of the regime -- that is, the promoters and users of the zones -- from serving as both "judge and party" to Board decisions. Otherwise, with a majority on the Board, there is a risk that private sector beneficiaries may implement the regime to suit their own business and personal interests. This could result in the possible exclusion of certain types or sources of investment, to the detriment of the national economy and public interest.

4. Composition of the Board

It is therefore recommended that the Board of PIZA have the following composition:

- Ministry of Industry as Chairman, with a right to two votes in case of a tied vote;
- Ministry of Local Government;
- Ministry of Economy and Trade;
- Ministry of Finance;
- Ministry of Labor;
- Head of the Environmental Authority;
- two representatives of the Developers, to be chosen by their peers for a period of two years;
- two representatives of the Users, to be chosen by their peers for a duration of two years;

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- two representatives of the local Chamber(s) of Commerce where zones are operating, to be chosen by their peers for a duration of two years; and,
 - the General Manager, who will serve as Secretary of the Board with voice but no vote.

Quorum would only be met if two private sector members are present.

As discussed above, the General Manager of the Agency should be appointed by the Board and he/she will directly report to the Board. The Ministers may be represented by their respective Deputy Ministers or Assistant Deputy Ministers. In no case, should these Ministers be represented by a non-decision making official. Whenever necessary, the Board can invite any additional public or private representation to its meetings, as well as any specialized advisers. These visitors will have a voice in these meetings, but no vote.

5. Commitment of the Public Sector

PIZA can only meet the difficult challenge of attracting local and international investors in WBG if it is clearly supported in word and practice by a strong commitment not only from the PA, but also from the Government of Israel and the international community. This commitment is particularly important for a Zone program in WBG, where competitive advantages are not given assets, but have to be built.

The PA's firm commitment will be necessary not only to create a truly autonomous Agency, but also to ensure that the following critical elements of FZ success are in place:

- a well-designed economic development strategy;
- the adoption of a one piece, simple, transparent, and competitive legal and incentive framework;
- the full support of the public administration to the one-stop shop nature of PIZA;
- the continuous improvement of the business environment; and
- the creation of adequate off-site infrastructure.

Box 2.5 Alternative Models of Zone Administration

Many free zone programs are administered by a public authority, while others are administered by a joint public-private body. Some zones are directly supervised by a government ministry. Examples of these alternative models include:

Mauritius: The Ministry of Industry and Commerce receives and processes FZ applications. In 1984, Mauritius also created the Mauritius Export Development and Industrial Authority (MEDIA), which promotes and also manages some industrial estates.

Republic of Korea: The Ministry of Industry and Commerce oversees FZ development, under the advice of an inter-ministerial "Deliberation Committee." Relevant powers are delegated to the Ministry from other ministries.

Taiwan (Republic of China): The Ministry of Economy directly supervises the FZ.

Turkey: The FZ program established in 1985 is placed under the supervision of a Free Zone Directorate within the State Planning Organization

Cyprus: The Ministry of Industry has the overall responsibility for FZ development.

Rumania: The FZ Agency established in 1991 is under the authority of the Ministry of Transport.

Philippines: The Export Processing Zones Authority is governed by a seven-member Board comprised of the Deputy Governor of the Central Bank, the Under-secretary of Finance and Trade, and other members appointed by the President of the Republic.

Panama: The Board of the FZ Authority is composed of four Ministers (Trade, Industry, Planning, and Presidency), the Director of the Colon FZ and five residents appointed by the President of the Republic.

Jordan: All the members of the Board of the FZ Administration are government officials, delegated from the Ministry of Finance, the Ministry of Trade and Industry, the Ministry of Transport, Customs, and the Central Bank).

Egypt: The FZ Council is appointed by the Minister of Economy.

Thailand: The eleven members of the Board of the Industrial Zone Authority are appointed by the Council of Ministers. However, no member can be a civil servant.

Nonetheless, despite these examples, the growing trend is to create mixed autonomous institutions. Some examples include:

Kenya: The Export Processing Zones Authority, set up under the Free Zone Act of 1990, is headed by a Board of Directors with public and private members.

Box 2.5, cont.

Dominican Republic: The National Free Zones Council has eleven members. Six members represent the private sector: two represent FZ users, two represent FZ developers, and one represents the Association of Exporters. The five members of the public sector are the Minister of Industry and Commerce, the Minister of Finance, the Head of the Industrial Development Corporation (which manages state-owned FZs), the Director of the Export Promotion Center, and the Governor of the Central Bank. Despite the private-public membership of the Council, it lacks a legal basis, thereby undermining its status as a truly autonomous institution.

Togo: An autonomous institution is headed by a Board where the private sector holds a majority (six out of nine) of the positions.

Israel: Out of thirteen members of the Free Zone Council, six represent the Ministries of Finance, Interior, Trade, Industry, Employment, and Environment. The others are private sector members appointed by the Minister of Finance from a list of candidates presented by the developers.

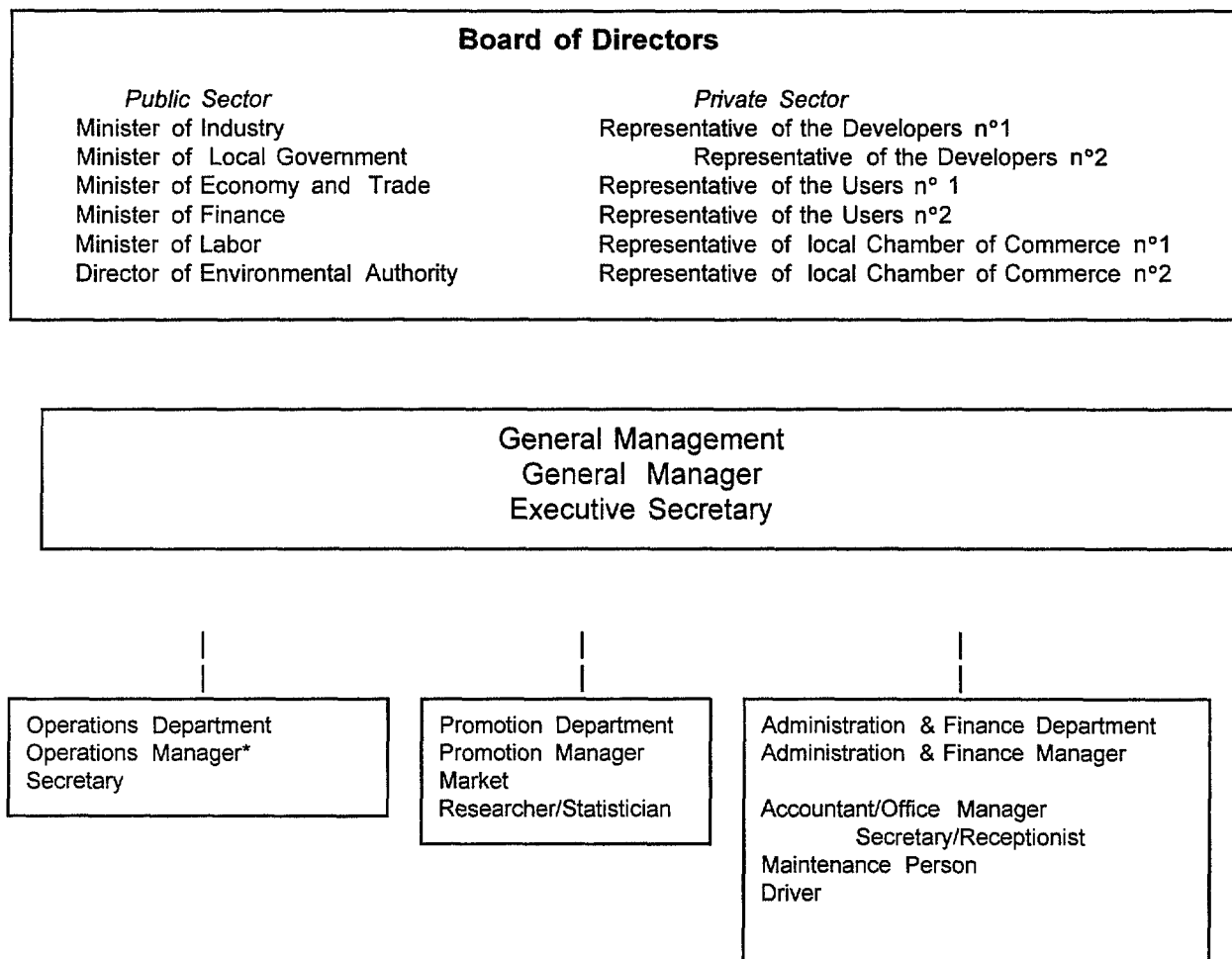
Cameroon: The National Office of Industrial Free Zones (NOIZF) is an autonomous institution headed by a Board comprised of three members appointed by the President of the Republic, and six members of the private sector (four representatives of FZ users, and two from the Chamber of Commerce).

Ghana: The Free Zone Board consists of nine members: the Minister of Trade and Industry, who serves as chairman; four members appointed by the President of the Republic; and four members appointed by the private sector.

E. Organizational Chart

The proposed organizational and managerial structure of the Palestinian Industrial Zone Agency is depicted below in Figure 2.1. *(Note that the functions and responsibilities of the PIZA's general management are discussed in Chapter 5.)*

Figure 2.1 PIZA Organizational Plan



* assisted by an Operations official in PIZA's second year

Chapter 3: Establishing PIZA as a One-Stop Shop

A. Types of One-Stop Shops

As discussed in the previous chapter, the facilitating and responsive function of the Agency can best be carried out by a one-stop shop type of institution. In this type of institution, the power to issue all necessary permits and licenses is centralized. This type of arrangement facilitates investment because the entrepreneur does not have to go to multiple offices and ministries to obtain all the authorizations needed to establish a business operation. Businesses deal with only one organization, thus saving time and money. Ideally, as is the case in a number of countries, the zone law should indicate a maximum time period within which all permits must be granted to FZ investors; after this period has expired, the permits must be automatically granted.¹

Such an institution, if properly staffed and delegated with the power to act in the name of various governmental departments, is a *real* "one stop shop." If the agency only has a liaison capacity -- that is, if it has special lines of contact with key officials in various departments and ministries through which it can rapidly obtain needed permits -- it is then called a *virtual* one-stop shop.

It should be noted that there is a third type of one-stop shop: this is an institution staffed with representatives of several ministries or departments, with no power to grant approvals and no legal obligation to grant permits automatically after a limited time span. This type of institution must be avoided at all costs as it is simply a "one-more-stop shop".

B. The Current Business Establishment Process

In order to start operations in WBG, a company must secure the following six documents:

- a certificate of company registration (from the Ministry of Economy);
- an agreement from the Municipal Authority;
- a permit from the Local Government Ministry;
- an agreement from the Ministry of Health;
- work permits for foreigners from both Israeli and Palestinian authorities; and,
- an industrial permit from the Ministry of Industry.

Currently, the Ministry of Industry works partly as a one-stop shop. Before the Ministry reviews an application for an industrial permit, the Ministry requires the investor to:

- complete an industrial permit form;
- provide a survey plan;

¹ In Chapter 7, this concept is discussed further as one of the procedures to be included in the free zone law.

-
- provide the certificate of company registration (obtained from the Ministry of Economy); and,
 - provide the agreement from the Municipal Authority.

Once the company has complied with those requirements, the Ministry of Industry secures for the private entrepreneur most of the remaining required permits. Table 3.1 shows which administrative permits are acquired by the Ministry of Industry, and the time needed to obtain such authorizations.

Table 3.1 Administrative Requirements Satisfied by the Ministry of Industry

Administrative Requirement	Processing Time	
	Minimum Time Needed	Maximum Time Needed
Permit from the Local Government Ministry	2 weeks	1 month
Authorization of Ministry of Health	2 weeks	2 weeks
Industrial permit (Ministry of Industry)	2 months	2.5 months

C. Business Establishment Procedures Under a FZ Regime

The Free Zone Agency should theoretically deliver the developer and user zone permit and issue the six permits and authorizations listed above. In fact, under the Zone regime, those steps are essentially simplified to two:

- The FZ user permit will be a substitute for the industrial permit currently issued by the Ministry of Industry.
- The agreement from the Municipal Authority is redundant since the zone developer will have already received this permission.
- The permit from the Local Government Ministry is also redundant for the same reason.
- The agreement from the Ministry of Health is likewise redundant if the law, as it should, subjects the issuance of a developer's permit to strict environment rules. This law will not address workplace health hazards, which should be monitored by the trade unions and the Ministry of Labor.

As a result, this leaves only three tasks to the Agency:

- issuance of the Zone permit;
- issuance of the Certificate of Company Registration (Ministry of Economy); and,
- obtaining work permits for foreigners from Israeli and Palestinian authorities.

D. Authorization Powers of the Agency

PIZA should function either as a real one-stop shop, or as a virtual one-stop shop, as described above. Under each of these options, the Agency would be granted slightly different powers and responsibilities with regard to the issuance of needed permits and authorizations for FZ operations. These two options are discussed in turn below.

1. Real One-Stop Shop

In order for PIZA to operate as a real one-stop shop, the following administrative changes have to occur:

- (1) the Ministry of Trade empowers the Agency to act in its name for the registration of companies;
- (2) the Ministry of Civil Affairs empowers the Agency to act in its name for the issuance of work permits for foreigners; and,
- (3) the Israeli authorities guarantee a quick processing of applications of work permits for foreigners. This issue should be added to the ongoing bilateral negotiations.

As indicated in the Draft on Procedures, the time limit for issuing permits should be two weeks.

The Agency, however, would not be able to operate as a real one-stop shop in the following cases:

- (1) for "single factory zones," that is exporting companies operating under the FZ regime, but which cannot operate in a factory zone because they need to be located close to their inputs, or because the transfer of their operations would be too costly (see draft Legal Framework); and,
- (2) the issuance of developers permits

In both of these cases, the Agency would only be a virtual one-stop shop, as it would secure some permits and authorizations, but would not offer the rapidity and efficiency of a real one-stop shop. Nonetheless, the number of single factory zones and developers applications is not expected to be significant. Moreover, an improvement in the administrative business environment nationwide, rather than simply under the FZ regime, would help accelerate the issuance of permits and authorizations in such cases.

2. Virtual One-Stop Shop

Should the Ministry of Trade and Ministry of Civil Affairs object to the delegation of their power to PIZA, the Agency would then have to operate as a virtual one-stop shop. This option is also feasible provided:

- The two Ministries commit themselves to rapidly process all applications, and to do so within a pre-established time limit; for example, within four working days.
- The two Ministries, in order to be able to meet this commitment, designate an official to be in charge of processing those applications, and empower him with a right of signature.

If these conditions are met, the Agency could process applications almost as quickly as a real one-stop shop. The positive aspect of this option is that it relieves the Operations Manager from some work.

E. Staffing Requirements

Under both options described above, the one-stop shop is also financially prudent as it will not turn it into a costly and idle bureaucracy. During the first year of the program, even under the real one-stop shop option, the Operations Manager and his/her secretary can handle the limited tasks of the one-stop shop. When the number of applications rises, hopefully as soon as the second year, the Operations Department would then be staffed with an Assistant. Under this flexible arrangement, staffing costs are minimized, and rise only in accordance with the work load of the Agency.

Chapter 4: Promotion Coordination

A. Palestinian Promotion Agencies

Due to the large array of products, targets, and actors potentially involved in the investment promotion process (see *Box 4.1*), a number of promotion agencies can arise. To date, there is only one operating promotion agency with an economic focus: the Export Promotion Agency. An additional agency is planned, however; this is the Palestinian Higher Investment Promotion Agency (PHIPA), under the Law for the Encouragement of Investment.

Other Palestinian promotional agencies include PIZA, which will sell the industrial estate/free zone regime. In addition, there have been discussions within the Ministry of Planning regarding the establishment of a special promotion agency to encourage expatriate investment.

Box 4.1 Investment Promotion Products, Targets, and Actors

Promotion Agencies are structured around three issues:

- What do we sell (the "product")
- To Whom we sell (the "target")
- Who sells (the "actor")

What?

A country can sell a number of general and more specific "products" like:

- political image;
- overall investment climate;
- sectoral investment (agriculture, tourism, industry);
- special investment regime like industrial parks, free zones, science parks, SME regimes, duty-free regimes, etc.; and,
- export products.

To Whom?

The "targets" are also numerous, such as:

- international opinion;
- specific foreign country(ies) opinion;
- local opinion;
- international economic decision makers;
- local economic decision makers; and,
- expatriates.

Box 4.1, cont.***Who Does It?***

A number of "actors" can have responsibility for promotion, including:

- a private company (such as an industrial estate or a free zone);
- a Ministry; or,
- a promotion institution (public, mixed, or private).

B. Promotion of Industrial Estates and Free Zones

Some countries have two separate promotional institutions: one responsible for export promotion and one responsible for investment promotion. Other countries, however, particularly smaller ones, have only a single agency promoting exports and investment. Combining these responsibilities into a single agency takes advantage of economies of scale and reduces the budgetary impact of promotional activities.

Ideally -- given the size of Palestinian economy and existing budget constraints -- a comprehensive law would have been adopted that took into account all investment regimes and created a single promotion agency with responsibility for promoting all types of investments. This would have been the optimal approach to the promotion of industrial estates and free zones.

Nonetheless, the IE/FZ program was conceived as a self-contained program, with its own law, regulations, and institutions. As a result, the free zone regime contains its own promotional component. The specific promotion functions of the free zone authority were listed as such:

- assist developers and users on issues in its areas of competence;
- prepare and execute an internal and external promotional plan to attract new investment;
- participate in investment promotion activities;
- prepare all pertinent promotional materials (brochures, videos, home-page, etc.) in different languages; and,
- develop and update a data base of information regarding prospective investors or sources of production.

C. Recommendations

Unless the PA decides to revert to a comprehensive investment law covering all sectors and regimes, Palestine will have two investment promotion agencies:

- PIZA dealing with the IE/FZ regime; and,
- PHIPA.

The creation of a promotion agency for expatriate investment is redundant as expatriates are already targets of PIZA and PHIPA, and efforts to establish yet another promotional body should be resisted.

Since multiple promotional institutions do exist, it is clear that the optimal promotional approach is for both agencies to concentrate and coordinate their efforts. Such an approach is sensible for the following reasons:

- good promotion is costly;
- promotional messages should not be contradictory; and,
- promotional actors should not compete one against one other, but against other countries' promotion efforts.

It is also extremely important that the two agencies coordinate on two key functional issues: (1) agency design and (2) agency operations. These are discussed in turn.

1. Agency Design

PHIPA has not yet been designed beyond Part II of the Law on the Encouragement of Investment. This same Law is under review and will be amended. This review should take into consideration the existence and design of PIZA.

The title of PHIPA -- the Palestinian Higher Investment Promotion Agency -- is not an optimal one as the use of the word "Higher" implies, perhaps not intentionally, a hierarchy. There is no institutional nor legal basis for PHIPA to be "higher" or more important than PIZA. This unfortunate wording undermines the message of a self-contained legislation and institutional framework.

The two institutions should also have common concepts. For instance, under the Law for the Encouragement of Investment, PHIPA is described as an autonomous institution managed by a mixed Board, with a General Manager appointed by the Chairman of the PA. The concept of PIZA is different.

The incentives structure should also be compatible. For instance, Article 12 of the Law for the Encouragement of Investment allows for the granting of "special exceptional exemptions to export projects," beyond the incentives granted by PIZA. This discretionary power contradicts the concept of transparent incentives promoted by PIZA. Further efforts to refine the design of these two promotion institutions should take into account these issues.

2. Agency Operations

Cost-effective and efficient coordination of the two agencies' activities can only be achieved if the following four provisions are satisfied:

- **Full and complete exchange of information:** All data on operating companies, potential investors, trends in competitor zones, etc. should be shared. The most efficient way to share such information is through use of a common database or by providing automatic access, through an electronic network, to each agency's database.
- **Common elaboration of the promotional message:** Both agencies, although addressing different sectors or investors, should use common campaign literature and themes whenever possible.
- **Common or coordinated activities and material:** Both agencies can jointly participate in international conferences, workshops, or fairs, as well as in the production of videos, Internet pages, or brochures.
- **Creation of a common forum for the exchange of information:** A Joint Committee meeting should be held between the two agencies on a monthly basis, or on demand, in order to coordinate the exchange of information, messages, and activities. Both agencies' General Managers and Promotion Managers should be permanent members of this Committee. Ideally, such a committee and its proscribed meeting dates should be established under the laws governing both agencies.

Chapter 5: Staffing Plan

The most effective promotion agencies worldwide are run and operated like private sector entities. Accordingly, they are staffed by managers whose training and qualifications are comparable to that found in the top levels of private enterprise, and earning salaries and benefits commensurate with private sector managers with similar skill levels.

This chapter provides job descriptions for the general management positions, as well as for managerial positions in the promotion, operations, and administration and finance departments of PIZA. A performance evaluation system is then presented for the evaluation and appraisal of the performance of the PIZA managerial staff.

A. Job Descriptions

1. General Management

General management of PIZA will be the responsibility of the General Manager, who will be assisted by an Executive Secretary.

General Manager. The General Manager will be elected by, and will report to, the Board of Directors.

The General Manager is responsible for managing and directing the Agency on a day-to-day basis and ensuring that it fulfills its functions as defined by the Law; that is, to implement the zone regime; promote investment under the zone regime; and offer policy advice to public authorities in all related areas of investment promotion.

In addition to other general management functions, he/she will be responsible for the following functions:

- supervise the establishment of the Agency;
- manage the institution on a day-to-day basis;
- select and propose candidates to the Board for recruitment as Agency staff;
- participate in the staff performance evaluation process;
- prepare and execute PIZA's annual budget (*see the following chapter on the Agency's proposed budget*);
- act as Secretary of PIZA's Board;
- work jointly with the Promotion Manager in the design and implementation of the promotion plan;
- formulate policy advice and elaborate all pertinent information that will define and assist policy decisions by the PA to strengthen and consolidate the zone program;
- organize the lines of contact and joint procedures with other public authorities so that the Operations Department functions effectively as a one-stop shop;

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- coordinate with respective PA authorities on the installation of all off-site infrastructure to be used by industrial estates and free zones;
 - serve as interlocutor for the private sector, the Palestinian Authority, and the international community in matters pertaining to the zones; and,
 - oversee the implementation of the FZ law, making sure that all beneficiaries remain in compliance, and as necessary, apply sanctions to violators.

Qualifications

The General Manager should have the following qualifications:

- an MBA or equivalent;
- a minimum of five years as chief executive of a private company with international operations, preferably as manager of an investment promotion agency or free zone;
- working experience in a multi-cultural environment; and,
- fluent English, Arabic, and possibly Hebrew.

The salary and benefits for this position should be equivalent to US\$80,000/year.

Executive Secretary. The General Manager will be assisted by an Executive Secretary who should have the following qualifications:

- a minimum of three years of experience in a comparable position; and,
- fluent English and Arabic.

The salary and benefits for this position should be equivalent to US\$25,000/year.

2. Promotion Department

The Promotion Department will be staffed by a Promotion Manager and a Market Researcher/Statistician.

Promotion Manager. The Promotion Manager will have the following responsibilities:

- prepare and execute a national and international promotional plan to attract new investment;
- participate in all investment promotion activities;
- prepare all pertinent promotional materials (brochures, videos, home-page, etc.) in different languages;
- assist developers on promotion activities; and,
- supervise the work of the Market Researcher/Statistician.

The Promotion Manager will report directly to the General Manager, and should have the following qualifications:

- an MBA or equivalent in marketing;
- a minimum of five years experience as Promotion or Marketing Manager;
- working experience in a multi-cultural environment;
- full working knowledge of Arabic, English, and possibly Hebrew; and,
- excellent written and oral communication skills

The salary and benefits for this position should be equivalent to US\$60,000/year.

Market Researcher/Statistician. The Promotion Manager will be assisted by a Market Researcher/Statistician, who will be responsible for the following tasks:

- monitor and collect information on all production, employment, and other quantifiable elements in the zones, and maintain data on all cost factors (labor, electricity, etc.) that affect the production costs of zone firms;
- collect and maintain comparable statistics on competing zones in the region and other parts of the world;
- monitor specific industries in other countries that have been previously identified as strong sources of potential investment;
- identify the sensitive economic needs of each specific industry, while determining the effective WBG response to these industries' needs;
- maintain and update as needed a comparative record of trade agreements (bilateral and multilateral) identifying the advantages and disadvantages of each; and,
- develop and update data base regarding prospective investors.

The Market Researcher/Statistician should have the following qualifications:

- an MBA or graduate training as a statistician/economist;
- a minimum of three years of professional experience;
- extensive skills in the areas of electronic telecommunications and data processing; and,
- working knowledge of English and Arabic.

The salary and benefits for this position should be equivalent to US\$40,000/year.

3. Operations Department

The Operations Department will be staffed by an Operations Manager, who will be supported by a Secretary.

Operations Manager. The Operations Manager will be responsible for the following tasks:

- receive, review, and make recommendations to the General Manager on applications from potential zone users and developers;
- secure all necessary registrations, permits, certificates and authorizations in the name of, or from, relevant government departments and authorities;²
- provide continuous and permanent support, information, and guidance to existing and prospective zone users and developers;
- keep track of the activities and progress of zone developers and users; and,
- recommend disciplinary action when zone laws or regulations are violated.

The Operations Manager should have the following qualifications:

- an MBA degree;
- at least three years of professional experience in a private company; and,
- working knowledge of English and Arabic.

The salary and benefits for this position should be equivalent to US\$60,000/year.

Secretary. The Operations Manager will be assisted by a Secretary. This individual should have the following qualifications:

- working knowledge of English and Arabic; and,
- effective word processing skills.

The salary and benefits for this position should be equivalent to US\$15,000/year.

4. Administration and Finance Department

The Administration and Finance Department should be staffed by an Administration and Finance Manager, an Accountant and General Manager, and a Secretary/Receptionist. In addition, a Maintenance Person and Driver will also be directly managed by this department.

Administration and Finance Manager. The Administration and Finance Manager will be responsible for performing the following tasks:

- establish the accounting system;
- develop and implement administrative procedures;
- prepare budget and monitor budget implementation on a monthly basis;
- identify resources and necessary requirements for accessing new funding, either externally or internally;

As discussed in Chapter 2, the establishment of the Agency as a "real," or "virtual," one-stop shop will determine whether the Agency has the delegated power to issue all necessary zone authorizations on behalf of the relevant government ministries, or whether these authorizations will still be issued by the ministries themselves.

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- prepare requests for funding;
 - manage all employee benefits; and,
 - oversee the work of the Accountant/Office Manager.

The Administration and Finance Manager should have the following qualifications:

- a degree in corporate finance;
- five years of experience in the financial area, preferably in the area of external auditing; and,
- working knowledge of English and Arabic.

The salary and benefits for this position should be equivalent to US\$60,000/year.

Accountant and Office Manager. The Accountant and Office Manager will assist the Administration and Finance Manager in the completion of general accounting activities, and will be responsible for ensuring the smooth day-to-day management and operation of the office.

The Accountant and Office Manager should have the following qualifications:

- a degree in accounting;
- a minimum of 3 years of professional experience in office management; and,
- working knowledge of English and Arabic.

The salary and benefits for this position should be equivalent to US\$25,000/year.

Secretary/Receptionist. A Secretary/Receptionist will work under the direction of the Administration and Finance Manager. He/she should have the following qualifications:

- effective computer worksheet and word processing skills; and,
- working knowledge of English and Arabic.

The salary and benefits for this position should be equivalent to US\$15,000/year.

Maintenance Person. A Maintenance Person should be on staff to perform as needed routine maintenance, trash collection, etc. The salary and benefits for this position should be equivalent to US\$4,000/year.

Driver. The Agency should have a Driver. The salary and benefits for this position should be equivalent to US\$7,000/year.

B. Performance Evaluation System

1. Performance Objectives

Ideally, the Agency's performance evaluation system should utilize both quantitative and qualitative objectives.

The ideal quantitative measurement of senior management performance would be the number of companies attracted to the program and the number of jobs created by these companies. The World Bank/USAID mission technical report of May assessed the feasibility and planned the development of the Gaza Industrial Estate (GIE) on the basis of such numbers. However, such numbers can not be used for the purpose of staff performance evaluation for the following reasons:

- they only take into consideration the GIE, leaving aside the potential of other zones;
- even for the GIE, those figures are highly hypothetical, as they are averages of the experience of selected countries, but do not reflect the specific conditions and risks of the WBG program.

Accordingly, it appears advisable to restrict the performance evaluation system to the use of qualitative objectives. It is therefore recommended that the performance of each staff member be measured against the responsibilities listed in their position description.

2. Proposed Rating System

Using the example of the Marketing Manager, the performance evaluation form would be as following:

Tasks	A	B	C	D	E
Prepare and execute a national and international promotional plan to attract new investments					
Participate in investment promotion activities					
Prepare all pertinent promotional materials (brochures, videos, home-page, etc.) in different languages					
Assist developers on promotion activities					
Supervise the work of the Market Researcher/Statistician					
Overall Performance evaluation					

The qualitative rating system to be used would be as follows:

Rating	Significance	Action on Overall Performance Evaluation
A	excellent	Salary raise to be considered commensurate with market rates
B	good	Some area(s) of improvement are needed
C	average	Output to be monitored on weekly basis + training
D	acceptable	Output to be monitored on daily basis + training
E	poor	Termination

3. Staff Appraisal Procedures

Staff evaluations should be carried out every three months using the following procedures:

- an independent self-evaluation should be completed by each staff member;
- an independent evaluation should be conducted by the person each staff member directly reports to (the General Manager is evaluated by the Board; other staff members are evaluated by their immediate superior); and,
- a mutual discussion of evaluations and of needed actions (if any) should be held between the two parties.

Chapter 6: Draft Budget

A. Expenses

The Agency is an autonomous institution which will have both a regulatory and promotional function. Such an institution cannot be self-sustainable and external funding must be obtained. Nonetheless, the institution has a lean design, thereby limiting its staff and expenses.

Table 6.1 below projects the estimated operating costs of the Agency over its first five years of operation.

Table 6.1 Estimated Five-Year PIZA Operating Costs

Expenses for Years 1-5					
	Year 1	Year 2	Year 3	Year 4	Year 5
Capital expenses *					
Office equipment	30000	5000	5000	5000	5000
Office furniture	50000				
Promotional material (1)	100000	5000	5000	5000	5000
Car & Minibus	35000				
Consumable					
Telecommunications (2)	40000	50000	60000	70000	80000
Car fuel & maintenance	20000	25000	30000	35000	40000
Office maintenance	1000	1000	1000	1000	1000
Others & contingency	5000	5000	5000	5000	5000
Salaries and benefits					
General Manager	80000	80000	80000	80000	80000
Executive Secretary	25000	25000	25000	25000	25000
Promotion Manager	60000	60000	60000	60000	60000
Market Researcher/Statistician	40000	40000	40000	40000	40000
Operations Manager	60000	60000	60000	60000	60000
Operations Officer			40000	40000	40000
Secretary	15000	15000	15000	15000	15000
Adm. & Finance Manager	60000	60000	60000	60000	60000
Accountant & Office Manager	25000	25000	25000	25000	25000
Secretary/Receptionist	15000	15000	15000	15000	15000
Maintenance	4000	4000	4000	4000	4000
Driver	7000	7000	7000	7000	7000
International travel (3)	50000	60000	70000	80000	90000
Total	722000	542000	607000	632000	657000

* Estimated costs assume duty- and VAT-free imports.

(1) Promotional materials: brochure(s), video, Internet page, etc. Expenses after Year 1 are minimal as they only imply update of the material.

(2) Telecommunications expenses increase in time along with the growth of the Agency's activities, particularly promotional activities. The use of e-mail, however, should help limit telecommunications costs.

(3) International travel: like telecommunications expenses, those expenses grow over time as the Agency's activities increase.

B. Income

The Agency can expect to have two sources of income to cover the operational expenses outlined above. These are: ordinary income, derived from developer and user fees; and external financing, obtained from the PA or other sources.

1. Ordinary Income

Ordinary income can be earned from the beneficiaries of the program, that is zone developers and zone users, as is common practice in most other zone programs. It should be noted, however, that there is a limit to how much income can be derived from this source because the fee structure for the zone must remain competitive with the fees charged in other zone programs. Accordingly, the fee structure proposed in Table 6.2 below represents the upper limit of what would be feasible rates for developer and user fees.

Table 6.2 Projected Fee Structure for Zone Users and Developers

Fee structure	US\$
Developer permit	10,000
Developer annual fee	10,000
User permit	1,000
User annual fee	1,000

Under this fee structure, the total cost of a developer permit would be US\$10,000. Of this amount, US\$2,000 would be paid when the application for a developer permit is submitted to the Agency. The remaining US\$8,000 would be paid upon approval of the application and issuance of the developer permit. In subsequent years, each developer would also pay an annual operating fee of US\$10,000 to PIZA.

Similarly, the total cost for a zone user permit would be US\$1,000. Of this amount, US\$200 would be paid when the application for a user permit is submitted to the Agency. The remaining US\$800 would be paid upon approval of the application and issuance of the user permit. Zone users would also pay an annual operating fee of US\$1,000 in subsequent years.

Using this fee structure, Table 6.3 below projects the Agency's ordinary income five years after the zone program begins operation. Four scenarios are presented, ranging from Scenario 1 (the best case) to Scenario 4 (the worst case):

Table 6.3 Estimated PIZA Ordinary Income, Year 5

	Operating Developers	Operating Users	Agency Fees (US\$)
Scenario 1	5	110	160,000
Scenario 2	4	85	125,000
Scenario 3	2	70	90,000
Scenario 4	1	55	65, 000

Using a conservative projection (Scenario 3), the ordinary annual income of the Agency in Year 5 would only reach US\$90,000. Table 6.4 below shows the assumptions used in this Scenario regarding the amount of zone activity, and resulting income generation, in Years 1-5.³

Table 6.4 Conservative Estimate of Zone Activity and PIZA Income, Years 1-5

Scenario 3 Zone Activity					
	Year 1	Year 2	Year 3	Year 4	Year 5
Developers starting operations	1	0	0	1	0
Developers in operation		1	1	2	2
Users starting operations	15	10	10	15	20
Users in operation		25	35	50	70

Scenario 3 Income					
	Year 1	Year 2	Year 3	Year 4	Year 5
Developer permit fee	10,000	0	0	10,000	0
Developer yearly fee		10,000	10,000	10,000	20,000
User permit fee	15,000	10,000	10,000	15,000	20,000
User yearly fee		15,000	25,000	35,000	50,000

2. External Financing

As seen above, even if PIZA operates on a fee-for-service basis, there is a upper limit to the level of fees that can be charged and the amount of income that the Agency will receive. As a result, PIZA will require external financing to cover its operational costs for staffing, promotion, etc., particularly in its initial years of operation. Accordingly, it is recommended that a three-year foreign assistance project be established to meet this initial shortfall in funding. This assistance would be equivalent to the total first-year operating budget of the Agency, plus a declining contribution to the Agency over the subsequent two years. By Year 4, the Agency will have to rely on its ordinary resources, supplemented as necessary by funding from the Palestinian budget or other sources. The amount of funding required will depend on the success of the zone program, and the relative number of developers and users the program attracts.

³ It should be noted that the accompanying diskette for this report contains the other three scenarios, and the formulas in the spreadsheets also enable an automatic recalculation of incomes using other assumptions regarding zone activity and fee levels.

The Agency's estimated external financing requirements (using the conservative assumptions contained in Scenario 3 regarding the anticipated level of zone activity) are contained in Table 6.5 below:

Table 6.5 Estimated PIZA External Financing Requirements

	Year 1	Year 2	Year 3	Year 4	Year 5
Total expenses	722,000	542,000	607,000	632,000	657,000
Ordinary income	25,000	35,000	45,000	70,000	90,000
External Financing	697,000	507,000	562,000	562,000	567,000

Chapter 7: Procedures to be Included in the Law

This chapter identifies the necessary administrative procedures that should be contained in the zone law in order to ensure the efficiency -- and therefore its attractiveness to potential investors -- of the free zone regime.

A. Board Procedures

The Board of Directors will have ordinary meetings on the first Monday of each month, or the next day in case of national holiday. The Chairman of the Board is responsible for calling the meetings. The Chairman will also be responsible for calling extra-ordinary meetings on a specific agenda, or within five working days after receiving two recommendations from the Agency regarding developer or user permit applications.

The Board can invite to its meeting, whenever necessary or helpful, additional public or private representation, as well as specialized advisers. These representatives or advisers will have a voice in said meetings, but no vote.

Ministries may be represented by their respective Deputy Minister or Assistant Deputy Ministers. In no case are these ministers to be represented by a non-decision making representative.

The General Manager of the Board is appointed by the Board and he/she will directly report to the Board.

The agenda of the meetings is to be drawn up by the Secretary and the Chairman. They are obligated to include all issues presented in writing by any member of the Board since its previous meeting.

Decisions are taken by simple majority and a quorum for validating sessions is comprised of seven members, of which two members must be representatives of the private sector. In the case of a tie in the voting, the Chairman will have the deciding vote.

B. Zone Regime Permits

All requests for permits are to be deposited in the executive offices of the Agency. The information to be contained in the applications for developer and user permits, and the application review process, are outlined below.

1. Developers Permits

Developers wishing to obtain a zone developer permit should submit an application accompanied by a complete project feasibility study (10 copies to be submitted). This study should contain the following information:

- marketing study;
- financial plan;
- zone physical plan and design;
- management structure;
- corporate structure;
- audited financial statements for the last three years;
- economic impact study;
- environment impact study; and,
- social and gender impact assessment.

All applications for a developer's permit are to be deposited in the offices of the Agency with a payment of US\$2,000.

The Agency will review the application upon receipt. Within 30 days, the Agency General Manager will communicate his/her written and documented recommendation to the potential developer and to the Agency's Board of Directors. Applications that are not approved or rejected within 30 days should be automatically approved and a permit should be issued immediately following payment of the remaining portion of the developer permit fee (see below).

Any additional information or clarification that the Agency might deem necessary for its evaluation can only be required once, and must be requested within five working days after submittal of the application. In such cases, the Agency's recommendation must be communicated to the developer and the Board within 30 working days after receipt of the additional information.

The Board will grant the permit or reject the application in a written and documented resolution. Developer applications will be accepted or rejected by public vote of the Board. Applicants that decide to appeal a negative recommendation of the Agency must be invited to the Board meeting to make their arguments before the Board votes on the application. Permits may only be denied by the Board in cases where the application or developer's proposed project does not meet the requirements of the Law or existing bilateral agreements.

The developer will receive the permit only after paying the remaining portion of the developer fee. In accordance with the fee structure proposed in this report, this payment would be US\$8,000. Each developer would also pay, in each subsequent year, an operating fee to the Agency of US\$10,000.

2. User Permits

Potential zone users should submit an application containing the following information:

- type of product or service to be manufactured or provided;
- estimated number and types of jobs to be created;
- estimated local value added;
- estimated yearly foreign exchange to be generated;
- brief description of inputs (raw materials, semi-finished goods, machinery, tags, equipment, and packaging materials) estimated to be used in a one-year period; and,
- brief description of the industrial process including all types and quantities of waste to be generated.

The Agency will review the application upon receipt. Within two weeks, the Agency's General Manager will communicate a written and documented recommendation to the potential user and to the Board of Directors. Applications not rejected within two weeks will be automatically approved and a permit will be immediately issued upon payment of the remaining portion of the user fee (see below).

As with the application for a developer's permit, any additional information or clarifications that the Agency might deem necessary for its evaluation can only be required once. Any such information must be requested within five working days following receipt of the application. In such cases, the Agency's recommendation must be communicated to the prospective user and the Board within two weeks following receipt of the additional information. The Board will grant or reject the permit in a written and documented resolution. Applications for user permits are accepted or rejected by public vote of the Board.

Applicants that decide to appeal a negative recommendation by the Agency must be invited to the Board meeting to present their arguments before the Board publicly votes on the application. User permits may only be denied in those cases where the application or the project violates the zone law or existing bilateral agreements.

Applicants for user permits will pay US\$200 when submitting an application to the Agency. The remaining portion of the user fee, US\$800, must be paid upon approval of the user permit. Each zone user will also pay, in each subsequent year, an operating fee of US\$1,000.

C. Monitoring

The Agency will be responsible for monitoring the activities of zone developers and users. Zone developers will assist in this process by providing to the Agency the following information:

- A copy of each lease or purchase contract negotiated with zone users.
- A bi-monthly report on the activities conducted by each company in the zone. This report will contain information on the number of employees of each company; new capital investment generated during the reporting period; and new products or services developed or produced during the reporting period.

D. Confidentiality

Staff and Board members of the Agency have an obligation to maintain the confidentiality of all aspects of their dealings with prospective and existing developers and users.

Chapter 8: Action Plan for PIZA Establishment

The Action Plan set forth in Table 8.1 below identifies all the necessary steps, the responsible parties, and the timing of the activities that are required to establish PIZA as an operative institution.

Table 8.1 Action Plan for PIZA Design and Implementation

Activities	Responsibility	Timing
1. PIZA design		
1.1 Draft PIZA design	Consultant/ Ministry of Industry	Nov. 24
1.2 Approval of PIZA design	Inter-Ministerial Committee	Dec. 10
2. Legal framework		
2.1 Draft Law	Consultants/ Ministry of Industry	Jan. 31
2.2 Draft Law approval	Inter-Ministerial Committee	Feb. 10
2.2 Law Enactment	PLC	March 31
3. GIE Support Project		
3.1 Project appraisal	World Bank	Jan. 30
3.1 Project negotiation	World Bank/Ministry of Industry	March 31
3.2 Project presentation to the Board	World Bank Board	May 31
3.3 Project signature	World Bank /Ministry of Industry	June 15
4. Free access and security bilateral agreement		
4.1 Draft agreement	PA/Gol	Jan. 20
4.2 Signature of agreement	PA/Gol	Jan. 31
5. PIZA Implementation		
5.1 Call for candidates for PIZA staff	Ministry of Industry	Feb. 10
5.2 First meeting of PIZA Board	Minister of Industry as Chairman	April 1
5.3 Appointment of General Manager	PIZA Board	April 1
5.4 Appointment of other staff	PIZA Board/General Manager	April 10
5.5 Selection of premises	PIZA Board/General Manager	April 10
5.6 PIZA Office opening	General Manager	May 1
5.7 Start of Support Project long-term Adviser mission	World Bank	June 15